

TOP SECRET

SECRET

CONFIDENTIAL

UNCLASSIFIED

31 OCT 1977

CIA OPERATIONS CENTER

NEWS ANALYSIS SERVICE

Date. 31 Oct

Item No. 1

Ref. No.

DISTRIBUTION I

Commodities

Questions on C.I.A. Crop Reports

The attached is from this morning's NYTimes.

For all practical purposes, this week marks the end of the corn harvest and the start of the annual battle of money and wits in the futures market for America's most important crop.

Between now and the time the planting and weather reports begin dominating the corn market next spring, the emphasis in the trade will be on the consumption rate of the feed grain, which is actually a grass used mainly by animals.

This season, however, a new element has been injected into the futures market—the reports being issued more and more frequently by the Central Intelligence Agency about the supply and demand for corn and, indeed, many other basic commodities.

According to a number of commodity specialists interviewed recently, the C.I.A. reports, such as the one made public last week, have added a new dimension to the corn and other futures markets on the Chicago Board of Trade, the major grain and soybean exchange.

For example, the C.I.A. report last week, which was carried by the news wire agencies, concerned China, traditionally the biggest question mark in the grain trade.

The report said that China had disappointing harvests this season and might have to increase its imports of farm commodities. It also noted the purchase by Peking of 180,000 bales of American cotton a few months ago, the first such purchase here since 1974.

What disturbs the commodity specialists is not the new source of information, a welcome development for an industry that lives and breathes on intelligence, but whether such reports reflect the facts or are planted in the press for some purpose other than to inform the trade.

Some commodity traders, none of whom cared to be identified, recalled the events in the grain trade in the months before the large Soviet grain purchases wiped out American surpluses, starting with the sales made in mid-July 1972.

Many traders still ponder whether President Nixon knew how bad the Soviet and Chinese crops were in early 1972 when he embarked on his new policy of opening those markets to American business. If so, the traders wonder, were the crop situations kept from farmers, who were selling their produce at distress prices that season, to give Peking and Moscow bargain grain in order to gain new markets

for industrial goods?

Last week, the grain traders were asking whether the C.I.A. reports of poor crops in China were meant to drive up prices and quiet American farmers who are complaining about low prices. They also were weighing whether the reports were aimed at stimulating the Soviet Union and other big customers to step up their buying of surplus American grain today.

The questions were more than academic last week because of the situation in the American corn market. Despite another record corn crop of roughly 6.2 billion bushels (56 pounds each), prices have been inching up in the last few weeks.

True, the end of the harvest means that hedging pressure on futures prices lightens considerably. Grain buyers, be they feed processors, food companies or exporters, normally hedge their commodities purchases by selling an equal amount short.

Still, the hedging pressure on corn since the harvest began has been far less than expected. For example, the nearest corn delivery, December, reached a contract low of \$1.90 a bushel on Aug. 23, about when the bulk of the harvest began. Last Friday, the delivery closed at \$2.11, up 6 cents on the week.

Meanwhile, corn exports for the statistical crop year ended last Sept. 30 totaled 1.7 billion bushels, about the same as the preceding season. But the carryover at the start of this month and crop year were estimated by the Government at 900 million bushels, up

from 400 million bushels on Oct. 1, 1976.

Obviously, corn prices have been firmed by the new Farm Bill, which raised the loan rate on this feed crop by 25 cents a bushel to \$2. The loan rate is what farmers receive from the Government when they pawn their crops.

However, in order to get the loan rate, corn farmers must deliver their grain to licensed elevators, which have little spare space today, or else have it stored on their farms in approved bins. Transport is costly and storage fees run about 2 cents a bushel each month.

Many corn traders believe that the unusual firmness in corn prices is traceable to two prime factors. One is that farmers have been holding back supplies because they believe prices will move higher as the cold weather approaches.

The second reason given is that farmers have been deeply influenced by the C.I.A. studies of China's agricultural prospects this season.

China's population increases by conservative estimate, by 17 million people a year. Consequently, any information from any respected source about Peking's agricultural situation is bound to have a powerful impact on the corn and other grain markets in the coming months.

The Commodity Research Bureau's index of futures prices closed last Friday at 192.8, up from the close a week earlier of 190.4. The index stood 199.4 a year ago.

Washington, D.C. 20505

TAT

31 OCT 1977



Executive Registry
77-2704

Believe I should
get up to speed on
our program here &
possibly talk to the
Beyland -

LH

